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President's Scratchpad

LAWRENCE A. APPLEY



Changing Incentives for Executives

A FEW WEEKS AGO the president of one of our well-known member companies came in to see us in the course of a business trip. Such visits are most welcome and are always helpful in our work. This is one of the many ways by which we keep in close touch with management thinking, needs, and practices.

In the course of the discussion, this president told us of the immediate and obvious results upon the interest and morale of his key executives of decentralization of authority and responsibility. While the company was growing over a long period of years, responsibilities had been clarified and delegated, but authority had been highly centralized. Practically every move of major significance had to be checked and approved by higher echelons.

With the expansion of business and plant, the addition of new products, and the return of a sharp competitive market, timely action became a requisite of survival; and that could be attained only by giving men of responsibility the freedom to act within the limits of established policy.

The results have been a noticeable stepping up of the vitality of the entire organization, a steady and continuous forward progress, the discovery of executive capacity and judgment which was not known to exist before, and greatest of all, the creation of an interest on the part of key executives quite similar to that they would have in a business they owned and operated themselves.

That last has a terrific impact. It brings out men's full management stature more than any other single factor. Yet such an advantage is frequently sacrificed to other considerations, not only in big organizations, but in small ones as well.

There are at least three major incentives which cause men to accept the heavy responsibilities of executive positions, and to face the hazards and the heartaches which go hand-in-hand with such responsibilities. The first of these is the satisfaction of attainment—the opportunity to produce, to serve, to create, to make a real contribution. The second is material or financial—the desire to enjoy and to provide for others a higher and higher standard of living, both material and cultural. The third is prestige and power.

The material incentive has been and is being measurably reduced. While few people of lower incomes shed tears for the man whose

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Trends in Business

General Outlook

In comparison with prewar years, the U. S. is still enjoying a boom of good-sized proportions, but the drift is downward. While some advances occurred over the past month, they appear due entirely to seasonal factors. Fears of a full-dress depression do not, however, appear to be widespread. *Business Week*, for example, diagnoses the trend as "essentially a shake-down to postwar normalcy." It expects the downward movement to continue through the summer and fall, but states that improvement should set in late this year or early next.

The extent of the slump so far recorded is not very great, it must be remembered. The nation's total output of goods and services—gross national product—ran at the annual rate of \$255 billion in the first quarter of 1949. This was a drop of \$9 billion from 1948 peaks, the largest in any quarter since the war's end, but it was still only in the neighborhood of four or five per cent.

Personal Income

Personal income in March was running at an annual rate of \$214.3 billion, as compared with \$205.7 billion in March of last year.

The Department of Commerce reports also that total disposable income compares still more favorably with 1948 because of lower tax payments. It states that a "substantial and significant" increase in savings by consumers has occurred.

Construction

The seasonal rise in building permit values (Dun & Bradstreet figures, 215 cities) continued in April, when the total was 6.8

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President's Scratchpad

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salary is \$25,000, \$50,000, or \$100,000 a year, it is still a fact that the expense and tax demands upon men in those income brackets do not permit the building of estates and provision for security, or allow funds for the luxuries enjoyed by men in the same income brackets 15 or 20 years ago. Regardless of how much material incentive may still exist in executive incomes, it is measurably reduced over what it has been, and it is getting smaller all the time.

The incentive of prestige and power never seems to be fully satisfactory. Attainment of more only leads to the desire for more, and, when still more is attained, it never turns out to be what it appeared to be from a distance. There are fewer and fewer individuals who consider it to be an acceptable incentive, and this is probably good.

That leaves us with the most desirable of all—the opportunity to do a job, to prove one's capacities, to have the chance to make decisions and make mistakes, to be criticized for failure and to be rewarded for success. What sense of satisfaction can there be for a man who is given a responsibility and then has every action he takes in the fulfilling of it checked and double-checked by others before he takes it? What's the use of sticking his neck out? Why worry about the consequences? He becomes just another cog in the executive machine and carries out the orders as they come from the General to the Colonel to the Major to the Captain to the Lieutenant to the Sergeant and so forth.

A prominent psychologist made an observation some years ago that comes to my mind in this connection: "If you want people to be what you'd like them to be, treat them as though they were." That could be paraphrased in this case: "If you want an executive to carry responsibility and exercise authority according to your standards, give him the responsibility and the authority believing that he can carry it." More people will measure up that way than any other.

With the continuing decrease in material incentive, with the lack of satisfaction in the incentive of power and prestige, why don't we look more and more into the possibilities of increasing the most desirable of all incentives by greater and greater decentralization of freedom to make decisions, freedom to use judgment, freedom to act? Such decentralization can be attained most rapidly and successfully through the establishment and clarification of major policies where several people are exercising authority within the same organization. They must all act in accordance with the rules. This is essential.

When policies are specific and when authority is delegated within the limits of policy, then the only matters that come on up to top management are exceptions to policy and comprehensive review of the results. That could mean fewer heart attacks, fewer ulcers and less frequent emergencies. This would in itself seem to be a reasonably satisfactory incentive. In any event, there's little to be lost and much to be gained by more effort in this direction.

Trends in Business

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per cent over the March figure. Values were, however, 4.5 per cent below the figure for April of 1948.

The number of new non-farm dwelling units started in March was 62,000, as against 46,000 in February, but for the first three months of the year the total averaged about 10 per cent lower than in the corresponding period of 1948.

Distribution

Dollar volume of post-Easter department store sales has been running consistently under last year's, and while some of the decline may be due to lower prices, it is estimated that unit sales are also off. "This is suggested," says the Cleveland Trust Company, "by recent figures on physical production, which have been below a year ago for such items as vacuum cleaners, washing machines, ironers, cotton goods, hosiery, shoes, glass containers, tires and others. It is evident that the public has not been buying retail goods in general quite as freely as in the earlier postwar years when shortages of civilian goods were still acute. Despite the record total of 1948 retail sales, consumers spent a little less of their disposable incomes for retail goods than they did in 1947, and this trend may have continued into 1949."

Production

The Federal Reserve Board's seasonally adjusted index of industrial production declined to 184 in March, about 5 per cent below the October peak, and it is expected that a further drop occurred in April. Manufacturing employment dropped slightly in March, when a slight seasonal upturn was to be expected, and was about 4 per cent less than in March a year ago.

Steel output, which was running above 100 per cent of capacity earlier in the year is down to 95 and 96 per cent, or a little better than last year at the same time. Automobile production, which had been proceeding at peak levels, will probably show a sharp drop for May because of the strike at Ford.

Labor and Wages

Employment rose from 57,647,000 in March to 57,819,000 in April, but there were fewer jobs than in April of last year, when the figure was 58,330,000. Unemployment was 3,016,000, as against 3,167,000 in March and 2,440,000 in April of 1948. The labor force is now estimated at 60,835,000, as against 59,769,000 in April of last year.

Sources:

ALEXANDER HAMILTON INSTITUTE
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Research

Flexibility in Seniority Clauses

In the emotionally charged atmosphere of collective bargaining sessions, seniority vs. merit is often batted about as though it were an "either or" problem. This two-valued orientation usually results in an ambiguous seniority clause that both sides know dodges the issue, and one that may be a source of bitter controversy during a period of even moderate activity in layoffs. But a more realistic approach is taken by a considerable number of companies and unions, as evidenced by the many limiting factors in the seniority provisions of hundreds of contracts. Many managements want to recognize the seniority principle if it can be applied so as not to hamper operations; similarly, some unions acknowledge the difficulty of administering a seniority plan.

Quite a few contracts explicitly define the term *seniority* since in the minds of many it connotes almost a proprietary right in a particular job. Thus, the contract may state that seniority is the relative standing among employees with respect to length of service, or the prior position some employees have over others because of longer service, or employment rights and privileges based on length of service. (Contracts "defining" seniority as length-of-service-plus-merit or length-of-service-plus-physical-fitness-and-job-qualifications only cause confusion and often lead to quite rigid administration on a length-of-service basis.)

While seniority status always implies some preference when a choice is to be made among two or more employees, the preference may not be absolute: the senior employee may have only the right to be *considered* for an advantageous selection. Principal variations are (1) seniority will be taken into account but primary consideration will be given to merit; (2) seniority will govern when ability and qualifications are equal or relatively equal; (3) seniority will govern if the senior employee is able to perform the job.

Establishing merit • Some companies have experienced so much pressure from the unions they feel it is almost impossible to get a seniority clause subject to merit and qualifications. Possibility of getting a clause that gives proper weight to ability and performance hinges partly on (1) whether the work is such that quality and output can be measured to provide an objective standard for determining merit, or (2) whether the company has a sound merit rating procedure if the work is of such a nature that performance must be rated—i.e. estimated, not measured. The union will often go along with a company's merit rating plan if one or more of the following provisions are made:

1. Employees' performance is reviewed at stated periods and discussed with them.
2. Employees may have recourse to the grievance procedure on ratings.
3. The company establishes clear-cut, written performance standards for each job classification.

4. The union is permitted to review performance standards before they are put into effect.
5. The union participates in drawing up the employee rating method; or if the rating form, and principles to guide its use, are appended to and made a part of the contract or otherwise made available to the union.

Job standards • Written job requirements based on job analysis also make it easier to obtain a seniority clause that recognizes ability. They eliminate the suspicion that when layoffs are to be made management may set up standards for jobs that certain employees cannot meet. If job requirements and employees' merit status are a matter of recent record, there can be greater acceptance of management's determinations when personnel changes are made.

The seniority unit • One way some companies try to make seniority practicable is to narrow the area in which employees may exercise length-of-service rights. Thus the seniority status of employees may be calculated by comparing their length of service with that of others in the same (a) department or (b) job classification or occupation rather than (c) length of service with the company.

The seniority of all employees is not always computed on the same basis: In the same company, unskilled employees may be placed on a seniority list according to length of service with the company, the majority on departmental seniority lists, and employees in a few classifications in separate occupational seniority lists. The last would cover either highly specialized classifications or those found in many departments.

Employees may have dual seniority—for example, both plantwide and departmental seniority may be calculated. Under such a system one of the employee's seniority positions may govern if more advantageous to him, or if otherwise there would be no distinction between him and another candidate for a particular post. (Dual seniority, though, is sometimes established only for different types of personnel action. For example, companywide seniority may be the basis for inclusion under the company's pension or benefit plan, while departmental or classification seniority decides the order of layoff.)

Preferential seniority • Some managements agree to preferential seniority, for layoff purposes, for union representatives because it insures continued dealings with informed employee representatives and is, therefore, helpful in the daily administration of the contract. Unions, of course, seek such a clause as a safeguard against discrimination for union activity. This arrangement may, however, be worked out differently for various categories of union representatives: Union officers and committeemen may be given top plant seniority but shop stewards may get only top departmental or classification seniority. Obviously, such preference must be predicated on ability to do the job available. A modification of preferential seniority is to allow it only if the union representative is already in a certain

percentile of the seniority group—for example, the top 25 per cent.

Exemptions from seniority • Contracts quite often exclude some employees from the seniority provisions—for example, those in key classifications, employees with outstanding proficiency, and “fair-haired boys” or special trainees. The contract may (1) specifically define these groups, (2) provide for union-management consultation in the event it becomes necessary to invoke this clause or (3) limit the number of exemptions to a certain percentage.

The contract may also provide that, in the event of a layoff, the company may exercise its discretion in exempting employees with major physical disabilities from seniority rules. Older employees, too, sometimes have protective status by being exempted from bumping rights of others even though they may exercise their own right to displace junior employees. A variation is for the contract to provide that a certain percentage of employees retained shall be 50 years old or older. These advantages ordinarily protect older employees who have been with the company for a considerable period, not those recently hired.

The contract may, in some instances, provide that consideration be given to the employee's economic need as determined by his family status, number of dependents, etc. This may be reserved to the discretion of management, or the contract may provide for union-management consultation on it. However, both unions and managements often vigorously oppose such a criterion.

Order of layoff • Many contracts are quite specific about the order in which layoffs are to be made, and also about certain administrative actions to precede extensive layoffs. Provision may be made for union-management consultation prior to the layoff if it affects a substantial number of employees. Many contracts, however, merely give the union the right to advance notice of layoffs so that grievances may be presented before the effective date of layoff.

Probationary, temporary and casual employees are invariably the first to go; elimination of overtime is often the next step. Before those with more than a year's service are affected, the contract may require part-timing, or work-spreading by a reduction in the workweek; sometimes work-spreading is not resorted to until after those with a year's service are laid off.

Usually the workweek is not reduced below 32 hours without prior consultation with the union. Apparently, unions recognize that the point of diminishing returns on this protective device is reached when shorter hours would cut the employee's earnings too severely. A compromise that has been effective in the past is to limit work-spreading to a certain period, such as 60 days.

Cutting the workweek is a problem that may confront some employers for the first time as a result of current activity by some unions (United Mine Workers, CIO's Oil Workers and Brewery Workers) to obtain a reduction in the workweek without a corresponding wage cut.

The contract may permit management to disregard seniority in layoffs of short duration as specifically de-

fined in the contract; similarly seniority may be suspended during emergency periods, usually after prior consultation with the union.

Bumping • Bumping can be a highly volatile practice, causing more anxiety and friction among employees than protection. (Recently one plant had to make 1,325 job transfers before it could lay off 255 employees.) However, there are many limitations on bumping: Some contracts require that if a senior employee is to be transferred or downgraded to avoid layoff, his ability to perform the work must be demonstrable at the time of change; some permit a reasonable training period; and others allow a trial period. In some contracts, certain jobs are exempted from bumping provisions, in others bumping rights are held only by employees with a certain amount of seniority or those who have actually worked in the classification. Also, employees with a specified length of service may be protected from displacement by bumping, and some contracts permit senior employees to displace only those with less than a certain length of service.

Some managements will permit bumping rights only in the same department or classification or among a group of closely related jobs. In lieu of bumping privileges, some contracts specify only that employees subject to layoff in their own classification may be transferred to vacant jobs existing elsewhere in the company.

Recall • A contract may suspend or restrict new hirings until all qualified laid-off employees have been recalled. In recall, however, the seniority sequence will be subject to the same modifications as in the layoffs. In addition, the contract may provide that employees eligible for recall meet current requirements in the department or classification in which work is available.

A new look • Problems are now arising over the application of seniority clauses in situations that were not anticipated when many existing contracts were signed. However, the seniority provisions of a new agreement are not usually retroactive—that is, if they differ from those in effect earlier, they do not affect the current seniority status of employees on the staff when the agreement is signed; but after that all employees acquire seniority in accordance with the new provisions. A great many contracts are silent on this matter of how the seniority provisions are to affect the status of present employees, and this omission is a source of many potential grievances. Some contracts provide for a union-management conference to be held one or two months after the agreement is signed for the purpose of determining the seniority status of present employees.

In every case, characteristics and traditions of the industry and the temper of past labor relations in the company influence the degree of flexibility that can be negotiated in seniority clauses, as well as the extent to which details can be left for day-to-day dealings between the union and management. There is ample evidence that both unions and management have endeavored to establish a “rule of law” in place of a “rule of man” through realistic modification of the seniority principle.

—EILEEN AHERN

Listening Post



Packaging prospects • One industry which need not be too concerned over long-term business prospects is the packaging industry, it appears from developments on view at the AMA's 18th National Packaging Exposition, held in Atlantic City, May 10-13.

Not only has the trend toward self-service stepped up prepackaging tremendously; the buyers' market itself is giving the industry a boost, in that it has induced more manufacturers to go in for gift packaging. Even such things as ten-cents-store toys and pantry shelves (in groups of three) are being gift-wrapped in window boxes or some form of transparency.

Further, the natural population increase may be expected to help matters along. "I am a firm believer that there is a certain amount of non-elastic demand insofar as containers and packaging are concerned," said Charles A. Lewis, Department of Commerce, one of the speakers at the conference held in conjunction with the show. "We are a growing nation, and as we grow we're going to need increasing supplies of foods, beverages, household and industrial equipment, and retail goods of all kinds. These products cannot be moved to the consumer without containers or packages of some sort. Packaging is, therefore, an indispensable service, cutting across all phases of the economy in much the same way as transportation does. As long as our economy has any vigor at all, there should be a good demand for containers and packaging."

Prices • Belief in the long-term prospects of the industry is causing a certain amount of resistance to price declines, according to Lee R. Forker, Chairman of the Container Committee of National Association of Purchasing Agents, another conference speaker; and while prices will probably be lower toward the end of the year, no precipitate drop can be expected. Supplies are, however, plentiful in practically all cases, with the possible exception of polyethylene.

Baked goods • Baked goods have definitely become style merchandise, to be packed in boxes decorated with appropriate seasonal motifs. One package designer was even given the job of thinking up a package for a "Labor Day Cake." He doodled a few scythes and sickles, pitchforks and dinner pails, on a scratchpad, but was rescued from his dilemma by some merchandising genius who suggested that a "Back-to-School Cake" would be a better idea. (There is only one Labor Day, but schools open any time between September 1 and October 1, which means a longer selling period.)

Textiles • Packaging ironing board covers in colorful boxes resulted in a 100 per cent increase in sales over a year's test, a retailer reported. Further, with three different grades—the "economy," the "superior," and the "supreme" packaged in different colors, the customers began trading up in a big way.

JAMES O. RICE

Packaging blouses in transparent envelopes for variety store sales not only stepped up purchases, but reduced or eliminated the markdowns necessary when unwrapped merchandise was displayed on counters and handled by customers.

Meats • Since last August 1, the number of self-service meat departments in the U. S. has virtually doubled, according to Paul J. Cupp, American Stores Company, still another conference speaker. One reason why customers like self-service, he suggested, is that they are not anxious to meet the butchers personally after the experiences they had with them during the war. Where there is self-service, they don't have to wait; they don't have to hurry their selection; and they don't have to take any guff from the man behind the counter.

However, Mr. Cupp noted, not all meat packaging has been successful. Much of it, he said, is done in the retail stores, and not all retailers understand the requirements. He also warned that with housewives increasingly conscious of the pennies, it would be a mistake to allow prepackaging to raise prices or become tagged as a luxury."

Two-for and three-for • Another trend which manufacturers are watching closely is the increasing popularity of deals offering two or three packages for one price—which is not necessarily any lower than that of two or three single packages sold separately. In one test, conducted by the *Progressive Grocer*, sales of 12 items were stepped up over 100 per cent by combination deals of that sort. Then, just to see what would happen, the researchers raised the price of a 14-cent item to two for 29 cents, and sales went up 84 per cent.

Packaging headaches • Along with the good news about prospects, however, packagers also heard a little healthy criticism of their efforts from the retailing and materials handling viewpoints.

For example, Hildreth Lange, Package and Product Design, R. H. Macy, took them to task for lack of originality. "The bulk of any assortment of packaging," she said, "dissolves into a monotone of color and a monotonous sameness of design. It would seem that all packages had been designed to a specific formula by a group of artists who attended the same art school, had the same instructor, and mastered the same course. We deplore this sameness—first, because it rarely makes a customer stop, and second because it retards decision at the point of sale."

Retailers also criticized the manufacturers for including too many items in shipping cases, for not leaving white space for price marks, for using packages that will not stack or wrap well.

A representative of a materials handling consulting firm (Burr W. Hupp of Drake, Startzman, Sheahan, Barclay, Inc.) spoke out against containers that are perfect cubes, those that are of odd shapes or will not fit on standard pallets, those that are too heavy (anything over 75 or 100 pounds), those that are too full, or not full enough, and those that are not properly marked.

Activities of the AMA

General Management Meeting To Analyze Long-Term Trends

Probable effects of current developments in labor relations, in national social insurance programs, in the equity capital market, and in the economy in general, on the future of American business management will be analyzed at the AMA General Management Conference, to be held June 8 and 9 at the Waldorf-Astoria, New York City. Addresses will examine the various broad problems confronting management today in relation to the question: "Can the manager perform the function for which he has been primarily trained and, at the same time, perform with equal efficiency the function of the industrial statesman?"

The conference will open with a discussion of "The Economic Base for Management Policy," in which C. D. Jackson, Publisher of *Fortune*, and Dr. Richard Glenn Gettell, Assistant to the Publisher, will utilize data developed by *Fortune* through special surveys to show where the average business stands today in the economic panorama. At the same session, there will be an address on "Positive Management—Dynamic Motivation of Human Resources," by J. Carlton Bagnall, Executive Vice President, Swank, Inc.

Cyrus S. Ching, Director, Federal Mediation and Conciliation Service, will speak on "The Future of Labor-Management Relations," and Dr. J. Douglas Brown, Dean, Industrial Relations Section, Princeton University, on the "Implications of National Social Insurance Programs." Edward T. Cheyfitz, former CIO official and now Assistant to the President of the Motion Picture Association of America, will analyze the "Implications to Management of Labor's Political Action."

A statement of unusual importance to management from the New York Stock Exchange will be presented by Emil Schram, President of the Exchange, at a special luncheon meeting on June 9. Mr. Schram's topic will be "The Equity Capital Market."

Also on the program are an address on "Policies and Principles of Decentralized Management" by Edwin T. Gibson, Executive Vice President, General Foods Corporation, and a discussion of "Products, Profits, and Persons," by Dwayne Orton, Director of Education, International Business Machines.

On the Planning Committee for the conference are Lemuel R. Boulware, Vice President, General Electric Company; Harold V. Coes, retired Vice President, Ford, Bacon & Davis; Raymond H. Fogler, President, W. T. Grant Company; John D. Gray, President, Wallach's, Inc.; John M. Hancock, Partner, Lehman Brothers; F. Thatcher Lane, President, The Seamless Rubber Company; James L. Madden, Second Vice President, Metropolitan Life Insurance Company; Keith S. McHugh, Vice President, American Telephone and Telegraph Company; Don G. Mitchell, President, Sylvania Electric Products, Inc.; R. W. Moore, President, Canada Dry Ginger Ale; Frank Stanton, President, Columbia Broadcasting System; L. C. Stowell, President, Underwood

Corporation; and James D. Wise, President, Bigelow-Sanford Carpet Company.

The Association's annual business meeting and election of directors will be held following the morning session on June 8.

Fowler McCormick to Receive Gantt Award at Conference

The Henry Laurence Gantt Memorial Gold Medal for "distinguished achievement in industrial management as a service to the community" will be presented to Fowler McCormick, Chairman of the Board of the International Harvester Company, at a dinner session of the AMA General Management Conference on the evening of June 8, at the Waldorf-Astoria. The award is given annually by the American Society of Mechanical Engineers and the AMA, in memory of Henry Laurence Gantt, one of the pioneers of scientific management, and an associate of Frederick Taylor.

The presentation will be made by Thomas Roy Jones, President of ATF, Inc., and chairman of the Gantt Medal Board. Life memberships in AMA will be awarded to Alvin E. Dodd, Honorary President of AMA; Harold V. Coes, retired Vice President of Ford, Bacon & Davis; and Channing R. Dooley, Director, and Walter Dietz, Assistant Director, Training Within Industry Foundation.

Insurance Men Will Convene May 26-27 in New York City

Insurance managers will have an opportunity to present individual problems for discussion by a panel of experts at the AMA Insurance Conference, May 26-27, at the Hotel Statler, New York City. The entire afternoon of the second day will be devoted to a question-and-answer session, with no set speeches scheduled.

A second panel session will cover "Practical Implications of Social Security Legislation," and will analyze the probable trends in state disability legislation, federal social security, and labor union demands for employee benefits.

Other topics scheduled for discussion at the two-day conference are "Evaluating Your Company's Insurance Program," "Administrative Considerations of Taxes on Loss Settlements," "Retrospective Rating Procedures for Workmen's Compensation," "Multiple Location Risks," and "Ocean Marine Insurance in Today's Market."



Ring binders, which will hold from 40 to 50 issues of the *Management News* may be purchased from AMA headquarters, 330 West 42nd Street, New York 18, N. Y. Binders are made of sturdy fabricoid, imprinted in silver.

Similar binders are also available for other AMA publications: the various conference series, research reports, and the two magazines, the *Management Review* and *Personnel*.

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